



ARKANSAS SHINES TO ARNOLD AS A BUDGET MODEL

By Aaron C. Davis, The Associated Press

Article Last Updated: 01/12/2008 08:23:38 PM PST

SACRAMENTO - Gov. Arnold Schwarzenegger says California should be more like Arkansas when it comes to putting money in the piggy bank.

The governor proposed a constitutional spending limit this week that his administration said originated, at least in part, with a conversation between Schwarzenegger and former President Bill Clinton about finances in Clinton's native state.

California should follow Arkansas, Schwarzenegger said, with a budget process that hordes money in good times to cover shortfalls in bad ones, and triggers automatic spending cuts when the economy turns south.

Unlike California, Schwarzenegger said, Arkansas only taps its savings to cover deficits.

That's not always the case.

After amassing a \$1 billion reserve, lawmakers in Arkansas last year burned through all but \$27 million of it to pay for school construction, a variety of pet projects and popular tax cuts. Arkansas lawmakers also regularly debate whether to spend more of the financial security blanket, although they have the luxury of doing so because the state is still running a surplus.

"It's a nice public-relations move to say you're setting aside money, but in practice it rarely happens," said David Hitchcock, a credit analyst with Standard and Poor's in New York. "Generally, rainy day reserves don't help much.

"They're usually exhausted before a state hits rock bottom."

Schwarzenegger on Thursday proposed a \$141 billion state budget that would cut roughly 10 percent from public education, grant early release to 22,000 prison inmates and close dozens of state parks to erase a \$14.5 billion shortfall over the next year-and-a-half. He also proposed the constitutional spending limit modeled after the Arkansas formula.

Schwarzenegger's finance director, Mike Genest, said the plan is rooted in the conversation between Schwarzenegger and Clinton but is different in a key respect: California could spend the money it saves only if tax revenue dips below long-term trends and results in a deficit.

"We don't allow the money to get spent," Genest said. "We're just using a model developed by Arkansas. It would be tailored to California, and the Legislature would actually be the decider of how cuts work" when there is a shortfall, he said.

Arkansas officials said they consulted with the Schwarzenegger team that crafted the plan.

California Democrats who oppose Schwarzenegger's budget cuts have taken issue with the idea of using Arkansas as a template for the state's annual budgeting process, if for no other reason than the size disparity between the two states.

Arkansas' total budget is roughly \$4 billion; California's is \$145.5 billion. The Golden State's deficit alone is 3 times larger than the Nature State's entire spending plan.

Senate President Pro Tem Don Perata, D-Oakland, warned this week that Schwarzenegger should remember that he immigrated to California.

"He sure as hell didn't go to Arkansas. It's almost a joke," Perata said. "If I wanted to live like Arkansas, I would move to Arkansas."

#